

Montcalm Community College

SIDNEY, MICHIGAN

ANNUAL FINANCIAL REPORT

FOR THE YEARS ENDED

JUNE 30, 2005 AND 2004

MONTCALM COMMUNITY COLLEGE

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June 30, 2005

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MONTCALM COMMUNITY COLLEGE

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Montcalm Community College's (the "College") financial statements provides an overview of the College's financial activities for the year ended June 30, 2005. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the College's management.

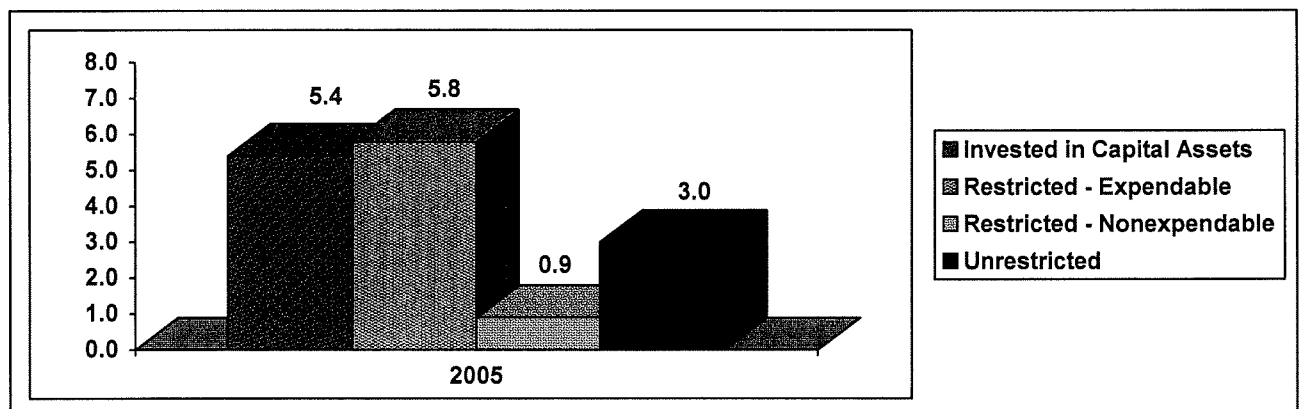
Using this Report

This annual financial report includes the report of independent auditors, this management's discussion and analysis, the basic financial statements, and notes to financial statements. Following the basic financial statements and footnotes are two supplementary schedules, the Combining Balance Sheet and the Combining Statement of Revenue, Expenses, Transfers and Changes in Net Assets. These additional schedules are required by the State of Michigan for a three-year period during which public colleges and universities are transitioning to the new reporting format. After that time, the schedules will no longer be required. Though GASB does not require this information be present for a fair and complete presentation, the statements do provide additional information regarding the various funds and activities of the College that is not disclosed in the basic statements.

Financial Highlights

The College's financial position increased slightly during the fiscal year ended June 30, 2005. The increase in net assets resulted from operating efficiencies and slight increases in tuition and property tax revenues.

The following chart provides a graphical breakdown of net assets by category for the fiscal year ended June 30, 2005:



In the fiscal year ended June 30, 2005, the College's revenues and other support exceeded expenses, creating an increase in net assets of \$ 507,823.

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is Montcalm Community College as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Montcalm Community College's operating results.

These two statements report Montcalm Community College's net assets and changes in them. You can think of Montcalm Community College's net assets – the difference between assets and liabilities – as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend in college applicants, student retention, condition of the buildings, and strength of the faculty, to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Following is a comparative analysis of the major components of the net assets of the College as of June 30, 2005, and the operating results for the year then ended (in millions):

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 4.8	\$ 5.9	\$ -1.1	-18.6 %
Restricted Assets	6.1	4.4	1.7	38.6
Property & Equipment (net)	<u>9.2</u>	<u>9.7</u>	<u>-.5</u>	<u>-5.1</u>
Total Assets	<u>\$ 20.1</u>	<u>\$ 20.0</u>	<u>\$.1</u>	<u>.0 %</u>
Current Liabilities	\$ 1.5	\$ 1.5	\$ -	.0 %
Long-term Liabilities	3.5	3.9	-.4	-10.2
Net Assets:				
Invested in capital assets	5.4	5.5	-.1	-1.8
Restricted – expendable	5.8	5.4	.4	7.4
Restricted – nonexpendable	.9	.8	.1	12.5
Unrestricted	<u>3.0</u>	<u>2.9</u>	<u>.1</u>	<u>3.4</u>
Total Net Assets	<u>15.1</u>	<u>14.6</u>	<u>.5</u>	<u>3.4</u>
Total Liabilities & Net Assets	<u>\$ 20.1</u>	<u>\$ 20.0</u>	<u>\$.1</u>	<u>0 %</u>
Operating Revenues:				
Tuition and Fees	\$ 3.5	\$ 2.8	\$.7	25.0 %
Federal Grants & Contracts	2.3	2.0	.3	15.0
State Grants & Contracts	1.2	.7	.5	71.4
Other	<u>.7</u>	<u>.5</u>	<u>.2</u>	<u>40.0</u>
Total Operating Revenues	7.7	6.0	1.7	28.3

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Operating Expenses:				
Instruction	\$ 5.3	\$ 4.6	\$.7	15.2 %
Technology	.5	.6	-.1	-16.7
Public Service	.3	.3	-	.0
Instructional Support	1.5	1.3	.2	15.4
Student Services	3.6	2.9	.7	2.4
Institutional Administration	1.4	1.3	.1	7.6
Operation & Maintenance of Physical Plant	1.3	1.1	.2	18.2
Depreciation & other	.9	.8	.2	25.0
Total Operating Expenses	<u>14.8</u>	<u>12.9</u>	<u>2.0</u>	<u>15.5</u>
Net Operating Loss	-7.1	-6.9	-.2	-29.0
Non-operating Revenues:				
State Appropriations	3.0	2.8	.2	7.1
Property Taxes	<u>4.6</u>	<u>4.6</u>	-	.0
Net Non-operating Revenues	<u>7.6</u>	<u>7.4</u>	<u>.2</u>	<u>2.7</u>
Increase in Net Assets	.5	.5	\$-	.0 %
Net Assets – Beginning	<u>14.6</u>	<u>14.1</u>		
Net Assets - Ending	<u>\$ 15.1</u>	<u>\$ 14.6</u>		

Operating Revenues

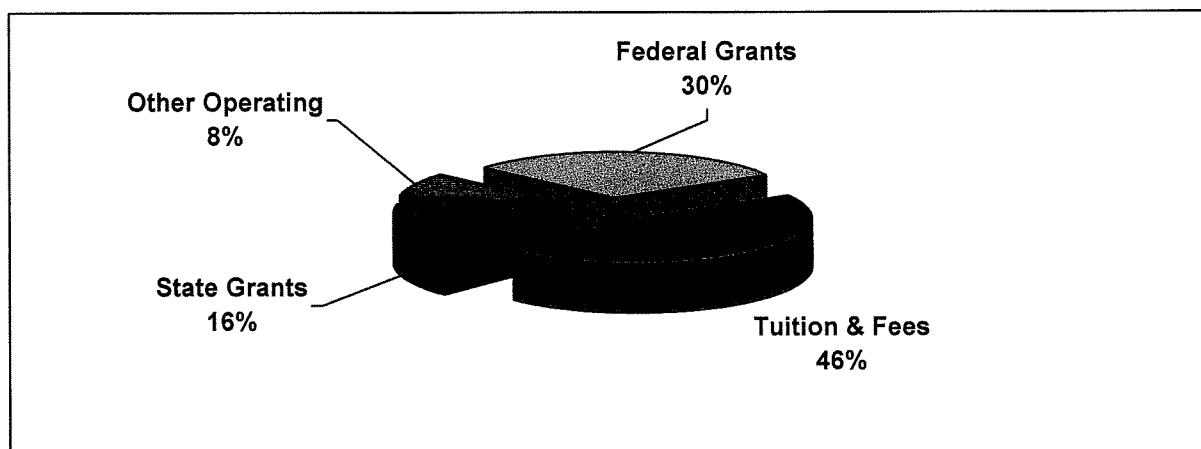
Operating revenues include all transactions that result in the sales and/or receipts from goods and services such as tuition and fees, food services and bookstore operations. In addition, certain federal, state, and private grants are considered operating if they are not for capital purposes and are considered a contract for services.

Operating revenue changes were the result of the following factors:

- Student tuition and fee revenue increased from the Board approved tuition increase of 5%. This increase affected all students (in-district, out-of-district, out-of-state).
- Grants and contracts revenues increased in job training areas. A contract with the State of Michigan to provide employability and other skills to incarcerated youth provided a significant increase in this area.
- Auxiliary services revenue increased due to bookstore and food service volumes growing from the prior year.

	<u>2005</u>	<u>2004</u>
Tuition and fees	\$ 3,535,729	\$ 2,848,217
Federal grants and contracts	2,312,045	1,959,652
State grants and contracts	1,250,450	688,078
Other operating revenues	<u>644,364</u>	<u>518,321</u>
Total operating revenue	<u>\$ 7,742,588</u>	<u>\$ 6,014,268</u>

The following is a graphic illustration of operating revenues by source:



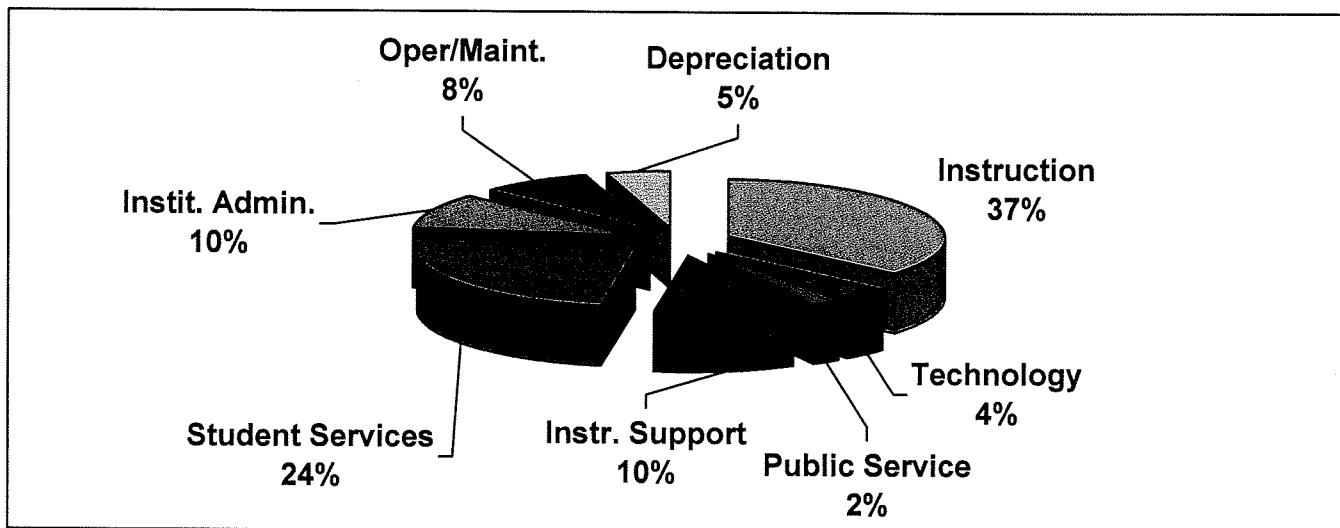
Operating Expenses

Operating expenses are all the costs necessary to perform and conduct the programs and primary purposes of the College. The operating expense changes were the result of increases due to rising costs for personnel, goods and services. The operating expense changes were the result of the following factors:

- Instruction costs increased due to union related cost of living increases for faculty and because of a state-mandated change that includes all technology costs in this area.
- Student services costs increased due to increased costs in auxiliary services
- Institutional administration costs decreased due to the state-mandated change moving the cost of technology to the instruction area.

	<u>2005</u>	<u>2004</u>
Instruction	\$ 5,370,450	\$ 4,522,670
Technology	540,315	553,466
Public services	324,509	267,103
Instructional support	1,552,201	1,364,692
Student services	3,622,572	2,902,790
Institutional administration	1,460,464	1,278,527
Operation & maintenance of plant	1,258,170	1,099,305
Depreciation	701,179	824,774
Other	<u>43,514</u>	<u>49,631</u>
Total operating expenses	<u>\$ 14,873,374</u>	<u>\$ 12,862,958</u>

The following is a graphic illustration of operating expenses by source:



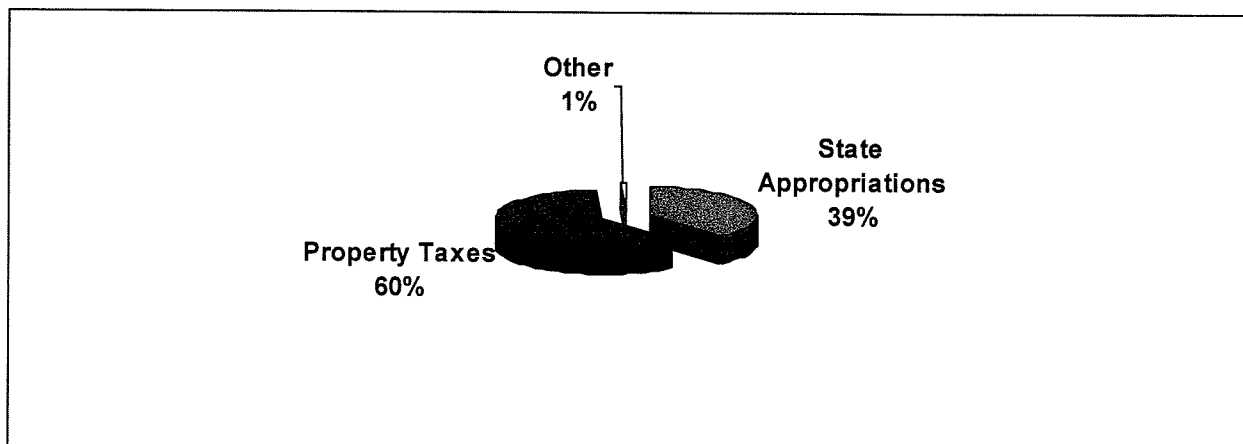
Nonoperating Revenues

Nonoperating revenues are all revenue sources that are primarily non-exchange in nature. They would consist primarily of state appropriations, property tax revenue, investment income (including realized and unrealized gains and losses), and grants and contracts that do not require any services to be performed.

Nonoperating revenue changes were principally due to changes in state appropriations and increased taxable value for property within the taxing district resulting in increased property tax revenues.

	2005	2004
State appropriations	\$ 2,976,950	\$ 2,788,500
Property tax levy	4,612,646	4,558,711
Investment income and other	49,013	30,697
Total nonoperating revenue	<u>\$ 7,638,609</u>	<u>\$ 7,377,908</u>

The following is a graphic illustration of non-operating revenues by source:



Other Revenue

Other revenue consists of items that are typically nonrecurring, extraordinary, or unusual to the College. Examples would be state capital appropriations, additions to permanent endowments, and transfers from related entities. There was no "Other Revenue" for the year ended June 30, 2005 and 2004.

Statement of Cash Flows

Another way to assess the financial health of a College is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess:

- An entity's ability to generate future net cash flows
- Its ability to meet its obligations as they come due
- Its needs for external financing

Cash Flows for the Year (in millions):

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Cash Provided (Used) by:				
Operating Activities	-\$6,813,630	-\$6,035,736	\$ -777,894	-12.9%
Noncapital Financing Activities	7,504,392	7,406,267	98,125	1.3
Capital & Related Financing Activities	-532,204	-285,854	-246,350	86.2
Investing Activities	<u>-1,754,970</u>	<u>-525,443</u>	<u>-1,229,527</u>	<u>-234.0</u>
Net Increase (decrease) in Cash	-1,596,412	559,234	<u>\$-2,155,646</u>	<u>-385.5%</u>
Cash – beginning	<u>3,710,819</u>	<u>3,151,585</u>		
Cash - ending	<u>\$2,114,407</u>	<u>\$3,710,819</u>		

The College's liquidity declined during the year, although the decline was due to moving cash to investments. The following discussion amplifies the overview of cash flows presented above.

Cash used in operating activities was approximately \$6.8 million. Major sources of funds came from student tuition and fees (\$2.1 million), and grants and contracts (\$3.9 million). Primary uses were payments to employees and suppliers.

State appropriations and property tax revenue for operations increased during the current year, which resulted in the increase in noncapital financing sources. Cash used by capital and related financing activities amounted to \$532,204, primarily the result of capital assets acquired during the year and debt payments.

Capital Asset and Debt Administration

Capital Assets:

At June 30, 2005, the College had some \$ 9.2 million invested in capital assets, net of accumulated depreciation of approximately \$ 13.2 million. Depreciation charges totaled \$ 701,179 for the current fiscal year. Details of these assets are shown below.

	<u>2005</u>	<u>2004</u>
Land & infrastructure	\$ 1,413,875	\$ 1,413,875
Buildings	19,896,356	19,757,929
Furniture, fixtures & equipment	<u>1,110,641</u>	<u>1,028,156</u>
	<u>\$22,420,872</u>	<u>\$22,199,960</u>

The College has been authorized to begin planning for a \$6 million capital outlay project, 50% of which will be funded by the State of Michigan. The primary focus of this project will be the construction of a new Life Sciences facility. Life and fire safety improvements are also planned for the Barn Theater and Instruction North buildings. Construction is expected to begin in June of 2006 and should be completed within one year. More detailed information about the College's capital assets is presented in the footnotes to the financial statements.

Debt:

At year-end, the College had \$ 3,525,000 in debt outstanding versus \$ 3,910,000 the previous year. These are general obligation bonds related to the extensive construction and renovation project completed in 1999.

The College made scheduled debt repayments of \$ 385,000 during the year. More detailed information about the College's long-term liabilities is presented in the footnotes to the financial statement.

Economic Factors That Will Affect The Future

The economic position of the College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources, the current state budget provides no increase in funding to the College in the next year. The Board of Trustees approved an increase (4.5% in district, 5.6% out of district & out of state) in tuition rates for the 2005-2006 fiscal year.

The largest employer in the College's district, Electrolux, plans to close its factory in early 2006. Currently, the College collects approximately \$50,000 annually in property taxes from this facility. The economic impact of this closure is uncertain. The College expects to be a principal provider of training and retraining for the workers displaced by this event. Additionally, area economic development officials are working aggressively to bring new employers into the area.

On February 22, 2005, voters approved a renewal of a 1.19 mil tax levy for 10 years. Renewal of this millage should allow the College to sustain and expand services to displaced workers and to address facility and deferred maintenance issues.

The College's current financial position indicates that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of services and plan for future needs.



REHMANN ROBSON

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INDEPENDENT AUDITORS' REPORT

September 9, 2005

Board of Trustees
Montcalm Community College
Sidney, Michigan

We have audited the accompanying balance sheets of **Montcalm Community College** (Community College District of the County of Montcalm) (the "College") as of June 30, 2005 and 2004, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Montcalm Community College** as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of Montcalm Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the financial statements of Montcalm Community College taken as a whole. The supplementary information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards and notes thereto is presented for purposes of additional analysis as required by OMB Circular A-133 and is also not a required part of the basic financial statements. All of the additional information has been subjected to the auditing procedures applied in the audits of the 2005 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2005 basic financial statements taken as a whole.

The Management's Discussion and Analysis ("MD&A") presented on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MONTCALM COMMUNITY COLLEGE

BALANCE SHEETS

	June 30	
	2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,114,407	\$ 3,710,819
Short-term investments	287,587	71,974
Property taxes receivable	45,302	9,756
Federal and state grants receivable	588,619	555,057
State appropriations receivable	545,984	496,326
Pledges receivable, less allowance for uncollectible pledges of \$30,000 (\$36,666 in 2004)	67,000	207,963
Accounts receivable	566,374	487,733
Inventories	232,356	205,317
Prepaid expenses and other assets	353,004	156,009
Total current assets	4,800,633	5,900,954
Long-term investments	6,115,933	4,395,648
Capital assets - net	9,228,968	9,709,235
Total assets	\$ 20,145,534	\$ 20,005,837
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 190,906	\$ 254,528
Accrued interest	101,233	36,576
Accrued payrolls, vacation and other compensation	559,142	521,535
Deposits	116,202	140,197
Unearned revenue	107,701	107,432
Current portion of bonds payable	385,000	385,000
Total current liabilities	1,460,184	1,445,268
Bonds payable	3,525,000	3,910,000
Accrued vacation	29,529	27,571
Total liabilities	5,014,713	5,382,839
Net assets		
Invested in capital assets, net of related debt	5,318,968	5,513,134
Restricted for		
Expendable scholarships and grants	2,734,287	2,684,466
Non-expendable scholarships and grants	878,884	821,871
Debt service	3,075,864	2,666,900
Unrestricted	3,122,818	2,936,627
Total net assets	15,130,821	14,622,998
Total liabilities and net assets	\$ 20,145,534	\$ 20,005,837

The accompanying notes are an integral part of these financial statements.

MONTCALM COMMUNITY COLLEGE

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30	
	2005	2004
Operating revenue		
Tuition and fees, net of scholarship allowance of \$1,404,671 (\$1,242,893 in 2004)	\$ 3,535,729	\$ 2,848,217
Federal grants and contracts	2,312,045	1,959,652
State grants and contracts	1,250,450	688,078
Nongovernmental grants	407,797	319,120
Auxiliary activities	44,690	71,861
Other	191,877	127,340
Total operating revenue	7,742,588	6,014,268
Operating expenses		
Instruction	5,370,450	4,522,670
Technology	540,315	553,466
Public services	324,509	267,103
Instructional support	1,552,201	1,364,692
Student services	3,622,572	2,902,790
Institutional administration	1,460,464	1,278,527
Operation and maintenance of plant	1,258,170	1,099,305
Depreciation expense	701,179	824,774
Other expenditures	43,514	49,631
Total operating expenses	14,873,374	12,862,958
Operating loss	(7,130,786)	(6,848,690)
Nonoperating revenue (expenses)		
State appropriations	2,976,950	2,788,500
Property tax levy	4,612,646	4,558,711
Property taxes refunded	-	(8,662)
Investment income	200,523	138,654
Net realized and unrealized loss on investments	(19,594)	(26,643)
Interest expense	(196,856)	(187,701)
Gifts	58,274	105,049
Bad debt recoveries	6,666	10,000
Net nonoperating revenue	7,638,609	7,377,908
Increase in net assets	507,823	529,218
Net assets - beginning of year	14,622,998	14,093,780
Net assets - end of year	\$ 15,130,821	\$ 14,622,998

The accompanying notes are an integral part of these financial statements.

MONTCALM COMMUNITY COLLEGE

STATEMENTS OF CASH FLOWS

	Year Ended June 30	
	2005	2004
Cash flows from operating activities		
Tuition and fees, net	\$ 2,122,296	\$ 1,715,451
Grants and contracts	3,936,730	3,047,643
Payments to suppliers	(7,676,345)	(5,221,213)
Payments to employees	(6,767,936)	(6,816,598)
Auxiliary enterprises	1,335,061	1,039,781
Other	236,564	199,200
Net cash used in operating activities	(6,813,630)	(6,035,736)
Cash flows from noncapital financing activities		
Local property taxes	4,577,100	4,559,573
State appropriations	2,927,292	2,846,694
Net cash provided by noncapital financing activities	7,504,392	7,406,267
Cash flows from capital and related financing activities		
Purchases of capital assets	(222,535)	(131,128)
Principal paid on bonds payable	(385,000)	(205,000)
Capital grant and gift proceeds	207,530	251,774
Interest paid on capital debt	(132,199)	(201,500)
Net cash used in capital and related financing activities	(532,204)	(285,854)
Cash flows from investing activities		
Proceeds from sales and maturities of investments	1,015,643	186,912
Interest and dividends on investments	200,523	138,654
Purchase of investments	(2,971,136)	(851,009)
Net cash used in investing activities	(1,754,970)	(525,443)
Net (decrease) increase in cash and cash equivalents	(1,596,412)	559,234
Cash and cash equivalents		
Beginning of year	3,710,819	3,151,585
End of year	\$ 2,114,407	\$ 3,710,819

The accompanying notes are an integral part of these financial statements.

MONTCALM COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended June 30	
	2005	2004
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (7,130,786)	\$ (6,848,690)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	701,179	824,774
Bad debts	17,350	34,417
Change in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(95,996)	(119,787)
Federal and state grants receivable	(33,562)	80,793
Inventories	(27,039)	45,822
Prepaid expenses and other current assets	(196,995)	(80,484)
Accounts payable	(63,622)	12,876
Accrued payrolls, vacation and other compensation	39,565	(9,097)
Deposits	(23,995)	31,256
Unearned revenue	271	(7,616)
Net cash used in operating activities	<u>\$ (6,813,630)</u>	<u>\$ (6,035,736)</u>

The accompanying notes are an integral part of these financial statements.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

1. MISSION

Montcalm Community College (the "College") is a Michigan Community College whose mission is to provide quality learning opportunities for individual growth and community improvement. The College offers associate degrees, numerous certificate programs, and other educational programs while being accredited by the North Central Association of Colleges and Secondary Schools. The primary education centers for the College are its main campus situated northeast of Greenville, and extension centers located in Greenville and Ionia.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Montcalm Community College (the "College") is a Michigan community college whose financial statements have been prepared in accordance with the generally accepted accounting principles as applicable to public colleges and universities outlined in Governmental Accounting Standards Board (GASB) Statement No. 35 and the *Manual for Uniform Financial Reporting - Michigan Public Community Colleges, 2001*.

The College reports as a business type activity, as defined by GASB Statement No. 35, rather than issuing financial statements which focus on the accountability of individual funds. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods and services.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the College. Based on the application of the criteria, the Montcalm Community College Foundation discussed in Note 9, is included in the College's reporting entity as a blended component unit.

Significant accounting policies followed by Montcalm Community College are described below:

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the related liabilities are incurred and certain measurement and matching criteria are met.

The College follows all applicable GASB pronouncements. In addition, the College applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected to not apply FASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and all highly liquid investments with an initial maturity of three months or less.

Investments

Investments are recorded at fair value, based on quoted market prices.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Inventories

Inventories, including books and miscellaneous supplies, are stated at the lower of cost using the first-in, first-out method, or market.

Capital Assets

Capital assets, which the College defines as property and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year, are recorded at cost or, if acquired by gift, at the fair value on the date of acquisition. Depreciation is provided for property and equipment on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Classification</u>	<u>Estimated Useful Lives</u>
Buildings	40
Infrastructure and land improvements	15
Building improvements	10
Furniture and fixtures	5
Computer equipment	4
Library materials	7

Unearned Revenue

Unearned revenue at June 30, 2005 consists of revenue received prior to year-end that relates to summer semester tuition for the period subsequent to July 1, 2005 for the semester, which began June 6, 2005 and concluded on July 29, 2005. Unearned revenue at June 30, 2004 consists of revenue received prior to year-end that relates to summer semester tuition for the period subsequent to July 1, 2004 for the semester, which began June 7, 2004 and concluded on July 30, 2004.

Revenue Recognition

Revenue from state appropriations are recognized in accordance with the accounting method described in the Manual for Uniform Financial Reporting – Michigan Public Community Colleges, 2001, which provides that state appropriations are recorded as revenue in the period for which such amounts are appropriated. Student tuition and related revenues and expenses of an academic semester are reported in the fiscal year in which the program is conducted. Property taxes are recorded as revenue when levied.

Operating revenues of the College consist of tuition and fees, grants and contracts, sales and services of educational activities and auxiliary enterprise revenues. Transactions related to capital and financing activities, noncapital financing activities, investing activities, state appropriations, and property taxes are components of nonoperating and other revenues. For financial reporting purposes, restricted resources are deemed to be utilized first when both restricted and unrestricted resources are available to satisfy any expenses.

Gifts and Pledges

Gifts are recorded at estimated fair value when received, and pledges are recorded at their net present value when it is determined that the gift is probable of collection.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Internal Service Activities

Both revenue and expenses related to internal service activities including office equipment, maintenance, and telecommunications have been eliminated in the presentation of these financial statements.

Accrued Vacation

Accrued vacation represents the accumulated liability to be paid under the College's current vacation pay policy.

Reclassifications

Certain amounts as reported in the 2004 financial statements have been reclassified to conform with the 2005 presentation.

3. CASH, TEMPORARY INVESTMENTS AND MARKETABLE SECURITIES

State of Michigan statutes authorize the College to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, or National Credit Union Administration, respectively; and in commercial paper of corporations located in this state rated prime by at least one of the standard rating services. The College is also authorized to invest in U.S. government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds comprised of investments as outlined above. The College's investment policy allows for all of these types of investments. The Foundation invests donations primarily in debt and equity securities.

The College's deposits and investments are included on the balance sheets under the following classifications as of June 30:

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2005</u>			
Cash and cash equivalents	\$ 1,867,358	\$ 247,049	\$2,114,407
Short-term investments	1,450	286,137	287,587
Long-term investments	<u>3,149,094</u>	<u>2,966,839</u>	<u>6,115,933</u>
	<u>\$5,017,902</u>	<u>\$3,500,025</u>	<u>\$8,517,927</u>
<u>2004</u>			
Cash and cash equivalents	\$3,116,518	\$ 594,298	\$3,710,819
Short-term investments	1,450	70,524	71,974
Long-term investments	<u>1,830,433</u>	<u>2,565,215</u>	<u>4,395,648</u>
	<u>\$4,948,401</u>	<u>\$3,230,037</u>	<u>\$8,178,441</u>

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The above amounts are categorized as follows at June 30:

	<u>College</u>	<u>Foundation</u>	<u>Total</u>
<u>2005</u>			
Bank deposits (checking, savings, and cash sweep accounts, and certificates of deposit)	\$ 2,245,607	\$ 1,917,757	\$4,163,364
Petty cash	<u>1,787</u>	<u>-</u>	<u>1,787</u>
	2,247,394	1,917,757	4,165,151
Investments in government obligations	2,770,508	519,518	3,290,026
Investments in fixed income securities	-	435,554	435,554
Investments in equity securities	<u>-</u>	<u>627,196</u>	<u>627,196</u>
Total	<u>\$ 5,017,902</u>	<u>\$ 3,500,025</u>	<u>\$8,517,927</u>
<u>2004</u>			
Bank deposits (checking, savings, and cash sweep accounts, and certificates of deposit)	\$4,063,406	\$1,016,134	\$5,079,540
Petty cash	<u>1,787</u>	<u>-</u>	<u>1,787</u>
	4,065,193	1,016,134	5,081,327
Investments in government obligations	883,211	1,730,938	2,614,149
Investments in fixed income securities	-	131,253	131,253
Investments in equity securities	<u>-</u>	<u>351,712</u>	<u>351,712</u>
Total	<u>\$4,948,404</u>	<u>\$3,230,037</u>	<u>\$8,178,441</u>

Interest Rate Risk. The College's investment policy does not have specific limits on maturities of debt securities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Foundation's investment policy limits the maximum maturity date of any debt security to six years. The maturities of the Foundation's debt securities generally represent a "laddered" approach with monies equally divided between two and six years.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

The College and Foundation had the following securities and maturities as of June 30:

		<u>Investment Maturities (In Years)</u>				<u>Credit Rating Range</u>	
						<u>Standard</u>	<u>Moody's</u>
<u>2005</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>		<u>& Poors</u>	<u>Investor's</u>
							<u>Services</u>
U.S. treasuries	\$2,030,749	\$1,998,674	\$ -	\$ 32,075	AAA	AAA	AAA
U.S. agencies	1,259,277	24,694	517,825	716,758	AAA	AAA	AAA
Mutual funds	627,196	N/A	N/A	N/A	unrated	unrated	unrated
Corporate bonds	<u>435,554</u>	<u>133,947</u>	<u>122,377</u>	<u>179,230</u>	A- to AAA	A3 to AAA	A3 to AAA
Total securities	<u>\$4,352,776</u>	<u>\$2,228,135</u>	<u>\$666,252</u>	<u>\$1,458,389</u>			

		<u>Investment Maturities (In Years)</u>				<u>Credit Rating Range</u>	
						<u>Standard</u>	<u>Moody's</u>
<u>2004</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>		<u>& Poors</u>	<u>Investors</u>
							<u>Services</u>
U.S. treasuries	\$1,029,310	\$ 999,161	\$ -	\$ 30,149	AAA	AAA	AAA
U.S. agencies	1,584,839	325,562	634,020	625,257	AAA	AAA	AAA
Mutual funds	5,062	N/A	N/A	N/A	unrated	unrated	unrated
Corporate bonds	<u>131,253</u>	<u>-</u>	<u>-</u>	<u>131,253</u>	A- to AAA	A3 to AAA	A3 to AAA
Total debt securities	<u>\$2,750,464</u>	<u>\$1,329,785</u>	<u>\$634,020</u>	<u>\$786,659</u>			

Credit Risk. The College's investment policy does not have specific limits in excess of state law on credit risk for allowable debt securities as identified above. The credit rating for each investment type is identified in the above table for debt securities held at June 30, 2005 and 2004. The Foundation's investment policy limits debt securities to issues rated "A" by Standard & Poor's rating service, with a minimum of all debt securities with a maturity exceeding one year be invested in U.S. Treasury obligations.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Concentration of Credit Risk. The College's investment policy does not have specific limits on concentration of credit risk. The Foundation's investment policy limits the cost basis of individual equity securities to 4% of its total investment portfolio.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned. State law does not require and the College does not have a policy for deposit custodial credit risk, as neither does the Foundation. As of June 30, 2005 and 2004, \$1,513,087 and \$1,947,860 of the College's bank deposits balance of \$1,773,727 and \$2,348,147, respectively, was exposed to custodial credit risk because it was uninsured and uncollateralized, respectively.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments that are in the possession of an outside party. State law does not require and the College does not have a policy for investment custodial credit risk, as neither does the Foundation. However, all investments are in the name of the College or Foundation, as applicable, and the investments are held in trust accounts with each financial institution from which they were purchased. Custodial credit risk for the mutual funds cannot be determined as these investments are not evidenced by specifically identifiable securities.

4. CAPITAL ASSETS

	Beginning Balance July 1, 2004	Additions	Deletions	Ending Balance June 30, 2005
Nondepreciable capital assets:				
Land	\$ 91,600	\$ -	\$ -	\$ 91,600
Depreciable capital assets:				
Land improvements	283,923	-	-	283,923
Buildings and improvements	19,757,929	140,050	1,623	19,896,356
Infrastructure	1,038,352	-	-	1,038,352
Furniture, fixtures and equipment	785,279	59,436	-	844,715
Library materials	242,877	23,049	-	265,926
Total depreciable capital assets	22,108,360	\$222,535	\$1,623	22,329,272
Total capital assets	22,199,960			22,420,872
Less accumulated depreciation:				
Land improvements	182,444	\$ 24,196	\$ -	206,640
Buildings and improvements	11,173,632	517,802	-	11,691,432
Infrastructure	458,094	48,410	-	506,504
Furniture, fixtures and equipment	551,779	81,367	-	633,146
Library materials	124,776	29,404	-	154,182
Total accumulated depreciation	12,490,725	\$701,179	\$ -	13,191,904
Total capital assets, net	\$ 9,709,235			\$ 9,228,968

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance July 1, 2003	Additions	Deletions	Ending Balance June 30, 2004
Nondepreciable capital assets:				
Land	\$ 91,600	\$ -	\$ -	\$ 91,600
Depreciable capital assets:				
Land improvements	250,630	33,293	-	283,923
Building and improvements	19,706,568	51,361	-	19,757,929
Infrastructure	1,038,352	-	-	1,038,352
Furniture, fixtures and equipment	765,805	19,474	-	785,279
Library materials	215,877	27,000	-	242,877
Total depreciable capital assets	21,977,232	\$131,128	\$ -	22,108,360
Total capital assets	22,068,832			22,199,960
Less accumulated depreciation:				
Land improvements	159,544	\$ 22,900	\$ -	182,444
Building and improvements	10,534,270	639,362	-	11,173,632
Infrastructure	409,684	48,410	-	458,094
Furniture, fixtures and equipment	409,684	86,068	-	551,779
Library materials	96,742	28,034	-	124,776
Total accumulated depreciation	11,665,951	\$824,774	\$ -	12,490,725
Total capital assets, net	\$10,402,881			\$ 9,709,235

5. EMPLOYEE RETIREMENT PLANS AND OTHER BENEFITS

Defined Benefit Pension Plan

Plan Description – The College participates in the Michigan Public School Employees Retirement System, ("MPERS"), a statewide, cost-sharing, multiple employer defined benefit public employee retirement system administered by the State of Michigan that covers most employees of the College. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. Benefit provisions are established and may be amended by State statute. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan, 48909-8103.

Funding Policy – Employer contributions to the System result from the effects of implementing the School Finance Reform Act. Under these procedures, the College is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99% of covered compensation for the period July 1, 2003 thru September 30, 2004 and 14.87% for the period October 1, 2004 thru June 30, 2005. Basic plan members make no contributions, but Member Investment Plan participants contribute at rates ranging from 3% to 4.3% of gross wages. The contribution requirements of plan members and the College are established by Michigan State Statute and may be amended only by action of the state legislature. The College's contributions to the MPERS' plan for the years ended June 30, 2005, 2004 and 2003 were \$707,376, \$588,508, and \$566,152, respectively, equal to the required contributions.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Post Retirement Benefits - Under the MPSERS' Act, all retirees participating in the MPSERS' Pension Plan have the option of continuing health, dental and vision coverage. Retirees electing continuing coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the College's total contribution to the MPSERS' plan discussed above.

Defined Contribution Plan

Effective January 1, 1998, existing professional MPSERS members and new professional employees of the College may elect to participate in the Montcalm Community College Optional Retirement Program (ORP) in lieu of participating in the MPSERS plan. The ORP was established by the College's Board of Trustees, is administered by TIAA-CREF, and is a defined contribution plan qualified under Section 414(d) of the Internal Revenue Code. Under the ORP, the College contributes 12% and the participant contributes 4% of the participant's compensation. Total covered payroll and College contributions were approximately \$704,000 and \$84,000 for the year ended June 30, 2005, respectively, and \$724,000 and \$87,000 for the year ended June 30, 2004, respectively.

Compensated Absences

The College pays eligible employees for their unused accumulated vacation upon termination of employment with the College. Employees earn vacation benefits based on time of service with the College. The obligation is included in the accompanying balance sheet as current liabilities of \$159,354 and long-term liabilities of \$29,529 at June 30, 2005, and current liabilities of \$150,235 and long-term liabilities of \$27,571 at June 30, 2004.

6. BONDED DEBT

Bonded debt activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	<u>\$4,295,000</u>	<u>\$ -</u>	<u>\$385,000</u>	<u>\$3,910,000</u>	<u>\$385,000</u>

Bonded debt activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	<u>\$4,500,000</u>	<u>\$4,295,000</u>	<u>\$4,500,000</u>	<u>\$4,295,000</u>	<u>\$385,000</u>

On February 18, 2004, the College refinanced the \$4,500,000 remaining balance of the bonds payable on the June 24, 1998 general obligation limited tax obligations. This resulted in an economic gain of \$121,337. The new general obligation limited tax obligations, which are to be repaid from the General Fund of the College, require principal payments ranging from \$385,000 to \$595,000 and are due annually through 2013. Interest is payable semiannually in April and October at rates which vary from 1.5% to 3.5%.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

Scheduled annual principal and interest requirements on the bonds for each of the next five years and thereafter are summarized as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 385,000	\$112,318	\$ 497,318
2007	420,000	104,620	524,620
2008	415,000	96,218	511,218
2009	510,000	85,844	595,844
2010	500,000	71,818	571,818
2011-2013	1,680,000	118,200	1,798,200
Totals	\$3,910,000	\$589,018	\$4,499,018

7. UNRESTRICTED NET ASSETS

The College has designated the use of unrestricted net assets as follows at June 30:

	2005	2004
Auxiliary activities	\$ 273,743	\$ 238,260
Unrestricted and unallocated	2,849,075	2,698,367
Total unrestricted net assets	\$3,122,818	\$2,936,627

8. RISK MANAGEMENT

The College is exposed to various risks of loss related to property loss, errors and omissions, and workers' compensation, as well as medical benefits provided to employees. The College has purchased commercial insurance for medical benefit and workers' compensation claims and participates in the Michigan Community College Risk Management Authority risk pool for all other types of claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Community College Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, which the Authority uses to pay claims up to retention limits, the ultimate liability for those claims remains with the College.

MONTCALM COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

9. MONTCALM COMMUNITY COLLEGE FOUNDATION

Montcalm Community College Foundation is a separate legal entity established as a 501(c)(3) corporation to accept, collect, hold and invest donations made for the promotion of educational and cultural activities at and on behalf of the College. At June 30, 2005 and 2004, the stated value of the net assets of the Foundation totaled \$3,551,453 and \$3,420,752, respectively. These assets and all activity of the Foundation are included in the financial statements of the College as a blended component unit.

The College provides personnel support, supplies and equipment to the Foundation.

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MONTCALM COMMUNITY COLLEGE

COMBINING BALANCE SHEET

JUNE 30, 2005

Assets	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	Foundation
Current assets							
Cash and cash equivalents	\$ 2,114,407	\$ 1,538,561	\$ 9,432	\$ (20,828)	\$ 229,839	\$ 110,354	\$ 247,049
Short-term investments	287,587	-	-	1,450	-	-	286,137
Property taxes receivable	45,302	45,302	-	-	-	-	-
Federal and state grants receivable	588,619	343,573	-	245,046	-	-	-
State appropriations receivable	545,984	545,984	-	-	-	-	-
Pledges receivable (less allowance for uncollectible pledges of \$30,000)	67,000	-	-	-	-	-	67,000
Accounts receivable	566,374	525,921	33,062	1,345	6,046	-	-
Inventories	232,356	-	232,356	-	-	-	-
Prepaid expenses and other assets	353,004	265,349	4,099	851	75,704	6,621	380
Due from (to) other funds	-	167,311	15,560	(166,146)	-	(773)	(15,952)
Total current assets	4,800,633	3,432,001	294,509	61,718	311,589	116,202	584,614
Long-term investments	6,115,933	-	-	-	3,149,094	-	2,966,839
Capital assets							
Land and improvements	375,523	-	-	-	375,523	-	-
Accumulated depreciation	(206,640)	-	-	-	(206,640)	-	-
Infrastructure	1,038,352	-	-	-	1,038,352	-	-
Accumulated depreciation	(506,504)	-	-	-	(506,504)	-	-
Buildings and improvements	19,896,356	-	-	-	19,896,356	-	-
Accumulated depreciation	(11,691,432)	-	-	-	(11,691,432)	-	-
Equipment-including vehicles & library books	1,110,641	-	-	-	1,110,641	-	-
Accumulated depreciation	(787,328)	-	-	-	(787,328)	-	-
Capital assets, net	9,228,968	-	-	-	9,228,968	-	-
Total assets	\$ 20,145,534	\$ 3,432,001	\$ 294,509	\$ 61,718	\$ 12,689,651	\$ 116,202	\$ 3,551,453

MONTCALM COMMUNITY COLLEGE

COMBINING BALANCE SHEET

JUNE 30, 2005

	Combined Total	General Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Agency Fund	Foundation
Liabilities and net assets							
Current liabilities							
Current portion of bonds payable	\$ 385,000	\$ -	\$ -	\$ -	\$ 385,000	\$ -	\$ -
Accounts payable	190,906	170,140	20,766	-	-	-	-
Accrued interest payable	101,233	-	-	-	101,233	-	-
Accrued payrolls, vacation and other compensation	559,142	559,142	-	-	-	-	-
Deposits	116,202	-	-	-	-	116,202	-
Unearned revenue	107,701	107,701	-	-	-	-	-
Total current liabilities	1,460,184	836,983	20,766	-	486,233	116,202	-
Bonds payable	3,525,000	-	-	-	3,525,000	-	-
Accrued vacation	29,529	29,529	-	-	-	-	-
Total liabilities	5,014,713	866,512	20,766	-	4,011,233	116,202	-
Net assets							
Invested in capital assets, net of related debt	5,318,968	-	-	-	5,318,968	-	-
Restricted for							
Expendable scholarships and grants	2,734,287	-	-	61,718	-	-	2,672,569
Non-expendable scholarships and grants	878,884	-	-	-	-	-	878,884
Debt service	3,075,864	-	-	-	3,075,864	-	-
Unrestricted	3,122,818	2,565,489	273,743	-	283,586	-	-
Total net assets	15,130,821	2,565,489	273,743	61,718	8,678,418	-	3,551,453
Total liabilities and net assets	\$ 20,145,534	\$ 3,432,001	\$ 294,509	\$ 61,718	\$ 12,689,651	\$ 116,202	\$ 3,551,453

MONTCALM COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUE, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

	Combined Total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Foundation
Operating revenue								
Tuition and fees (net of scholarship allowance of \$1,404,671)	\$ 3,535,729	\$ (1,404,671)	\$ 3,562,833	\$ 42,506	\$ 1,335,061	\$ -	\$ -	\$ -
Federal grants and contracts	2,312,045	-	10,046	-	-	2,301,999	-	-
State grants and contracts	1,250,450	-	299,688	-	-	950,762	-	-
Nongovernmental grants	407,797	-	-	-	-	407,797	-	-
Auxiliary activities	44,690	-	44,690	-	-	-	-	-
Current funds expenditures for equipment and capital improvements	-	(220,909)	-	-	-	-	220,909	-
Other	191,877	(31,921)	134,970	-	1,835	100,093	(13,100)	-
Total operating revenue	7,742,588	(1,657,501)	4,052,227	42,506	1,336,896	3,760,651	207,809	-
Operating expenses								
Instruction	5,370,450	(31,921)	4,147,302	112,681	-	1,142,388	-	-
Technology	540,315	(24,060)	564,375	-	-	-	-	-
Public services	324,509	-	324,509	-	-	-	-	-
Instructional support	1,552,201	-	1,551,971	-	-	230	-	-
Student services	3,622,572	(1,438,794)	1,081,435	-	1,426,804	2,519,003	-	34,124
Institutional administration	1,460,464	(23,049)	1,465,413	-	-	18,100	-	-
Operation and maintenance of plant	1,258,170	(173,801)	1,328,554	-	-	103,417	-	-
Depreciation expense	701,179	-	-	-	-	-	701,179	-
Other	43,514	-	-	-	-	1,400	7,597	34,517
Total operating expenses	14,873,374	(1,691,625)	10,463,559	112,681	1,426,804	3,784,538	708,776	68,641
Operating (loss) income	(7,130,786)	34,124	(6,411,332)	(70,175)	(89,908)	(23,887)	(500,967)	(68,641)

MONTCALM COMMUNITY COLLEGE

COMBINING STATEMENT OF REVENUE, EXPENSES, TRANSFERS AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2005

	Combined Total	Eliminations	General Fund	Designated Fund	Auxiliary Activities Fund	Expendable Restricted Fund	Plant Fund	Foundation
Nonoperating revenue (expenses)								
State appropriations	\$ 2,976,950	\$ -	\$ 2,976,950	\$ -	\$ -	\$ -	\$ -	\$ -
Property tax levy	4,612,646	-	4,612,646	-	-	-	-	-
Investment income	200,523	(34,124)	44,431	-	72	20	13,649	176,475
Net realized and unrealized (losses) gains on investments	(19,594)	-	-	-	-	-	20,479	(40,073)
Interest expense	(196,856)	-	-	-	-	-	(196,856)	-
Gifts	58,274	-	2,000	-	-	-	-	56,274
Bad debt recoveries	6,666	-	-	-	-	-	-	6,666
Net nonoperating revenue (expenses)	7,638,609	(34,124)	7,636,027	-	72	20	(162,728)	199,342
Increase (decrease) in net assets	507,823	-	1,224,695	(70,175)	(89,836)	(23,867)	(663,695)	130,701
Transfers in (out)	-	-	(1,150,494)	70,175	125,319	-	955,000	-
Net increase (decrease) in net assets	507,823	-	74,201	-	35,483	(23,867)	291,305	130,701
Net assets - beginning of year	14,622,998	-	2,491,288	-	238,260	85,585	8,387,113	3,420,752
Net assets - end of year	\$ 15,130,821	\$ -	\$ 2,565,489	\$ -	\$ 273,743	\$ 61,718	\$ 8,678,418	\$ 3,551,453



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

September 9, 2005

Board of Trustees
Montcalm Community College
Sidney, Michigan

We have audited the financial statements of Montcalm Community College as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montcalm Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montcalm Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

MONTCALM COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Pass Through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass- Through Grantor's Number	Program Award Amount	Accrued Revenue June 30, 2004	Current Cash/ Payments In-Kind Received	Expenditures		Accrued Revenue June 30, 2005
						Prior Year	Current Year	
U.S. Department of Education:								
Student Financial Aid Cluster:								
Pell Grant Program	84.063	-	\$2,014,540	\$ 45,695	\$ 1,936,306	\$ 1,664,625	\$2,021,872	\$ 131,261
Federal Supplemental Educational Opportunity Grant Program	84.007	-	72,565	8,941	55,444	75,809	66,758	20,255
Federal Work Study Program	84.033	-	96,083	-	107,033	87,451	100,092	(6,941)
Federal Family Education Loan Program	84.032	-	2,129,795	-	2,089,819	1,327,317	2,089,819	-
Total Student Financial Aid Cluster			4,312,983	54,636	4,188,602	3,155,202	4,278,541	144,575
Passed through Michigan Department of Education:								
Vocational Education Basic Grant:								
Professional Development 03-04	84.048	329965123	-	(7,644)	(7,644)	36,530	-	-
Career Pathways	84.048	-	-	-	31,057	-	37,972	6,915
Local Leadership 03-04	84.048	33250/402519	19,019	13,644	13,644	19,019	-	-
04-05	84.048	33250/520217	18,400	-	16,651	-	18,400	1,749
Regional Allocation 04-05	84.048	033510/5117	193,769	-	118,729	-	193,769	75,040
03-04	84.048	043510/402119	183,471	138,471	138,471	183,471	-	-
Professional Development	84.048	043290/402944	1,200	-	-	786	1,200	1,200
U.S. Department of Labor	17.260	-	-	-	3,930	6,258	10,793	6,863
Total Vocational Education Basic Grant			415,859	144,471	314,838	246,064	262,134	91,767
			\$4,728,842	\$ 199,107	\$ 4,503,440	\$ 3,401,266	\$4,540,675	\$ 236,342

The accompanying notes are an integral part of this schedule.

MONTCALM COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Montcalm Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. LOANS OUTSTANDING

Federal Family Education Loan Program loans are made directly to students by outside lenders (e.g., banks and savings and loan institutions). The amount reported in the schedule as Federal expenditures for this program is the gross amount of loans approved by the College during the fiscal year. The balance of loans for previous years is not included as the lenders account for the prior year balances.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

September 9, 2005

Board of Trustees
Montcalm Community College
Sidney, Michigan

Compliance

We have audited the compliance of Montcalm Community College with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Montcalm Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Montcalm Community College's management. Our responsibility is to express an opinion on Montcalm Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Montcalm Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Montcalm Community College's compliance with those requirements.

In our opinion, Montcalm Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Montcalm Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Montcalm Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of trustees, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Lohman". The signature is written in dark ink and is centered on the page.

MONTCALM COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2005

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial
statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified not

considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Circular A-133,
Section 510(a)?

_____ yes X no

Identification of major programs

CFDA Numbers

Name of Federal Program or Cluster

84.063, 84.007, 84.032, 84.033

Student Financial Aid Cluster

Dollar threshold used to distinguish

between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

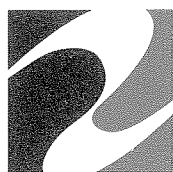
 X yes _____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



REHMANN ROBSON

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September 9, 2005

Audit Committee
Montcalm Community College
Sidney, Michigan

Committee Members:

To assist the Audit Committee in overseeing the financial reporting and disclosure process for which management is responsible, Statement on Auditing Standards No. 87 requires auditors to ensure that certain matters are communicated to the Audit Committee. At Montcalm Community College, the Board of Trustees acts as the Audit Committee.

**AUDITOR'S RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS,
GOVERNMENT AUDITING STANDARDS AND OMB-CIRCULAR A-133**

As stated in our engagement letter dated June 30, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Montcalm Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Montcalm Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Montcalm Community College's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on Montcalm Community College's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Montcalm Community College's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Audit Committee should be informed of the initial selection of and changes in significant accounting policies or their application. Also, the Audit Committee should be aware of methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas where there is a lack of authoritative consensus. We believe management has the primary responsibility to inform the Audit Committee about such matters.

MANAGEMENT JUDGEMENTS AND ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon knowledge and experience about past and current events and assumptions about future events. Certain estimates are particularly sensitive because of their significance and because of the possibility that future events affecting them may differ markedly from management's judgements.

1. The allowance for doubtful accounts has been estimated based on past experience with uncollectible accounts receivable.
2. The liability for self-insured unemployment payments is estimated based on the claims history.
3. Depreciation of capital assets is based on their estimated useful lives.

SIGNIFICANT AUDIT ADJUSTMENTS

We are responsible for informing the Audit Committee about adjustments to the financial statements arising from our audit that could, in our judgement, have a significant effect on your financial reporting process, including the potential that future financial statements could be materially misstated.

There are no significant audit adjustments for the year ended June 30, 2005.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

The Audit Committee often considers information prepared by management that accompanies the financial statements, such as management's discussion and analysis. To assist your consideration of this information, you should know that we are required by generally accepted auditing standards to read such information and consider whether such information, or the manner of its presentation, is materially inconsistent with information in the financial statements. If we consider the information inconsistent based on this reading, we are to seek a resolution of the matter.

We have read the management discussion and analysis prepared by management that accompanies the audited financial statements for the year ended June 30, 2005, and nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

DISAGREEMENTS WITH MANAGEMENT

We are required to discuss with the Audit Committee any disagreements with management over the application of accounting principles or the basis for management's judgement about accounting estimates.

During our audit for 2005, there were no such instances of disagreement with management.

CONSULTATION WITH OTHER ACCOUNTANTS

If management consulted with other accountants about auditing and accounting matters, we are to inform the Audit Committee of such consultation if we are aware of it and provide our views on the matters discussed.

We are not aware of any instances where management consulted with other accountants about matters which might affect your June 30, 2005 financial statements since no other accountants contacted us, which they would be required to do by Statement of Auditing Standards No. 50, before they provided written or oral advice.

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

We are to discuss with the Audit Committee any major issues discussed with management in connection with our retention as auditors, including the application of accounting principles or auditing standards.

There were no major issues discussed with management in connection with our retention as auditors.

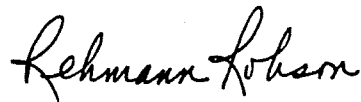
DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We are to inform the Audit Committee of any serious difficulties encountered related to the performance of the audit.

There were no serious difficulties encountered related to the performance of the audit.

The information is provided to assist you in performing your oversight responsibilities. This letter is intended solely for the use of the Audit Committee and management. We were pleased to serve and be associated with Montcalm Community College as its independent auditors and look forward to our continued relationship.

Sincerely,

A handwritten signature in cursive script, reading "Lehmann Lohman".